FOREIGN GOLD & EXCHANGE RESERVES

Current Trends

International Monetary and Trade Research Branch ▫ Foreign Development and Trade Division

IN THIS ISSUE...

U.S. Department of Agriculture ▫ Economic Research Service

May 1970

FGER-8

RESERVES, TRADE, AND ECONOMIC GROWTH
by Carolee Santmyer

GLOBAL REVIEW

The value of free world trade continued to increase in 1969 while total international reserves remained almost stationary. As a result, the liquidity ratio (reserves as a percentage of imports) declined for the second consecutive year. The ratio, as of December 31, 1969, was 28 percent compared with 32 percent at the end of 1968 and 35 percent the preceding year (table 1). By the close of 1969, world reserves amounted to $76.9 billion, fractionally above the year-earlier position. In contrast, world exports valued at $243 billion in 1969 surpassed those of the previous year by 14 percent; import values climbed 13 percent to over $254 billion (table 2). The resulting world trade deficit fell to $11.3 billion from $11.9 billion in 1968. 1/

Changes in the Composition of International Reserves

International reserves of the free world nations include the sum of their reserve positions in the IMF, plus their gold and foreign exchange holdings. Beginning with 1970, they also encompassed their IMF special drawing rights (SDR's).

The IMF membership had a total reserve position of over $6.7 billion at the end of 1969, up more than $0.2 billion from the year before. During this same period foreign exchange holdings of member countries declined by almost $0.3 billion to slightly over $31.0 billion. World monetary gold holdings increased by $110 million to roughly $41.0 billion between December 31, 1968, and the end of 1969 (table 3). In contrast, a $700 million decrease occurred during the year-earlier period, when speculation and hoarding characterized the gold market. Country holdings of gold totaled over $39.1 billion at the close of 1969, or $195 million higher than 1968 holdings.

On December 31, 1969, U.S. gold holdings totaled almost $11.9 billion, up nearly $1 billion from the like 1968 date. This partially offset the $1.2 billion gold outflow of the previous year and reflected the improved international confidence in U.S. monetary policies and the U.S. dollar.

Although France lost an additional $330 million worth of its gold in 1969, this outflow was much less severe than the $1.4 billion loss in 1968. The country's currency devaluation on August 8, 1969 helped restore world confidence

1/ Theoretically, the value of total world exports should equal that of total world imports, but this does not occur due to statistical and other reasons. Differences in valuation and reporting methods--e.g., f.o.b. for exports vs. c.i.f. for imports-timing, plus trade imbalances between communist countries and members of the International Monetary Fund (IMF), give the impression that a world trade deficit exists.

Note: References to "total" world gold and reserves are exclusive of the Sino-Soviet countries and Cuba.

in the franc. In addition, the German revaluation of the mark on October 26, 1969 climaxed a period in which currency adjustments were being anticipated by speculators. Thus, the speculative flight from French to German currency became less attractive. Germany had a $460 million decline in gold stocks during 1969; in the previous year they rose $311 million. South Africa's gold outflow by the close of 1969 totaled $128 million. During 1968, its gold stocks increased by a net amount of $660 million as South Africa abstained from selling gold on the open market in anticipation of higher official gold prices. No significant changes in monetary gold holdings were registered for any other IMF member.

Special Drawing Rights (SDR's)

The IMF's first allocation of the new international reserve asset, Special Drawing Rights, was made on January 1, 1970. The SDR's number approximately 3.4 billion units, with each unit equivalent to $1 US. SDR's are designed to help ease the world's liquidity problems. They are to be used by Fund participants when a country would otherwise have to use its gold reserves. For example, if a participant wants to acquire convertible currencies, it can exchange an equivalent value of its SDR's with the IMF member whose currency it borrows. The Fund has the authority to designate the country that accepts the SDR's of the borrower. However, the Fund must assure that the designee has a strong balance of payments and reserve position, or that the designee needs additional SDR's to meet its own obligations. A participant is obligated to accept SDR's on Fund designation until the participant's holdings of SDR's are three times its original allocation.

For certain purposes, SDR's may be transferred between participants without the Fund's country designation, as long as the Fund approves of the transfer. SDR's can also be transferred to the IMF's General Account in payment of charges or in repayment of a member's drawings. A participant's daily average use of SDR's during any 5-year period cannot exceed 70 percent of its overall allocation during this period. Each Fund member who voted to become an SDR participant was allocated a value of SDR's expressed as a percentage of its IMF quota on the day before the allocation date.

Price Movements

According to the World Bank's commodity price indexes, export prices of products sold internationally in 1969 averaged 3 percentage points higher than in the previous year. This increase applied to both developed and less developed countries. Although prices improved in 1969, most of the export expansion was due to a growth in volume. Exports from developed countries were up over 15 percent from a year earlier and totaled almost $195.7 billion. Shipments from less developed countries increased about 9 percent to $47.3 billion.

In 1969, prices rose substantially for most primary products sold by less developed countries. But there were exceptions: palm kernel prices declined by 22 percent, copra prices fell between 17 and 18 percent, and rice and tea prices declined by over 8 percent. Price increases exceeding 20 percent were registered for cacao, rubber, groundnuts and oil, hemp, and hides.

Table 1.--International gold and foreign exchange reserves of the free world 1/

Country and area	Reserves: Dec. 31, 1967	Reserves: Dec. 31, 1968	Reserves: Dec. 31, 1969	Change in reserves, Dec. 1968-Dec. 1969		Gold component Dec. 31, 1969 2/	Ratio of reserves to imports 3/
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent	Percent
ALL COUNTRIES, Total 4/	73,850	76,755	76,905	150	.2	59.6	28.1
I. INDUSTRIAL AND OTHER .... DEVELOPED COUNTRIES 4/ .	61,085	62,853	61,716	-1,137	-1.8	67.7	27.5
United States	14,830	15,710	16,964	1,254	8.0	83.6	41.0
Belgium	2,590	2,187	2,388	201	9.2	70.2	21.9
France	6,994	4,201	3,833	-368	-8.8	92.5	21.1
Germany, Federal Rep. of	8,152	9,948	7,129	-2,819	-28.3	61.5	25.3
Italy	5,463	5,342	5,005	-337	-6.3	76.3	37.3
Netherlands	2,619	2,463	2,529	66	2.7	85.4	20.7
European Economic Community (excluding Luxembourg)	25,818	24,141	20,884	-3,257	-13.5	74.6	25.2
Austria	1,484	1,510	1,537	27	1.8	57.3	49.5
Denmark	534	449	446	-3	-.7	20.2	10.7
Norway	677	702	712	10	1.4	15.7	20.4
Portugal	1,233	1,362	1,444	82	6.0	62.0	69.1
Sweden	841	815	696	-119	-14.6	47.0	10.8
Switzerland	3,555	3,932	3,995	63	1.6	66.1	66.4
United Kingdom	2,695	2,422	2,527	105	4.3	58.2	12.4
European Free Trade Association	11,019	11,192	11,357	165	1.5	56.5	24.8
Australia	1,364	1,443	1,261	-182	-12.6	41.5	25.8
Canada	2,717	3,046	3,106	60	2.0	43.5	20.3
Finland	184	354	359	5	1.4	24.0	14.9
Greece	286	322	317	-5	-1.6	48.9	19.6
Iceland	35	29	39	10	34.5	2.6	26.4
Ireland	439	545	691	146	26.8	14.0	46.5
Japan	2,030	2,906	3,654	748	25.7	28.5	22.2
New Zealand	134	76	113	37	48.7	.9	11.0
South Africa	778	1,471	1,397	-74	-5.0	90.8	39.7
Spain	1,049	1,095	833	-262	-23.9	94.1	17.4
Turkey	119	123	245	122	99.2	47.8	36.0
Yugoslavia	80	132	254	122	92.4	20.1	11.4
II. LESS DEVELOPED COUNTRIES 4/	12,765	13,905	15,190	1,285	9.2	26.9	30.9
Latin America							
Central American Common Market 5/...	195	229	240	11	4.8	19.6	28.0
Argentina	727	760	538	-222	-29.2	47.0	33.1
Bolivia	38	40	42	2	5.0	28.6	---
Brazil	199	257	658	401	156.0	8.7	29.6
Chile	126	208	340	132	63.5	13.8	---
Colombia	83	173	221	48	27.7	11.8	32.9
Dominican Republic	32	36	40	4	11.1	7.5	13.8
Ecuador	69	57	65	8	14.0	33.8	---
Haiti	2	3	4	1	3.3	---	10.5
Jamaica	102	142	140	-2	-1.4	6.4	34.4
Mexico	586	657	662	5	.8	42.4	31.2
Paraguay	12	12	10	-2	-16.7	40.0	12.0
Peru	126	111	167	56	50.5	15.0	27.1
Uruguay	175	194	197	3	1.5	83.8	98.5
Venezuela	872	922	933	11	1.2	52.7	48.8

Continued

Table 1.--International gold and foreign exchange reserves of the free world 1/--Continued

Country and area	Reserves Dec. 31, 1967	Reserves Dec. 31, 1968	Reserves Dec. 31, 1969	Change in reserves, Dec. 1968-Dec. 1969		Gold component, Dec. 31, 1969 2/	Ratio reserves to imports 3/
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent	Percent
Middle East							
Cyprus	104	156	176	20	12.8	10.8	77.9
Iran	305	292	311	19	6.5	50.8	22.3
Iraq	368	453	465	12	2.6	45.8	107.9
Israel	715	663	412	-251	-37.9	11.2	27.5
Jordan	244	284	262	-22	-7.7	13.0	131.0
Kuwait	184	173	182	9	5.2	53.8	31.6
Lebanon	281	332	347	15	4.5	83.6	---
Saudi Arabia	761	662	582	-80	-12.1	24.2	---
United Arab Republic	196	168	139	-29	-17.3	66.9	22.2
Asia							
Afghanistan	39	47	41	-6	-12.8	80.5	---
Burma	155	152	129	-23	-15.1	65.1	---
Ceylon	55	51	40	-11	-21.6	---	7.7
China, Republic	416	381	477	96	25.2	17.2	45.1
India	662	682	926	244	35.8	26.2	49.5
Korea	356	391	553	162	41.4	.5	30.0
Malaysia	457	515	680	165	32.0	14.6	51.2
Pakistan	161	252	325	73	29.0	16.6	31.8
Philippines	180	161	121	-40	-24.8	37.2	10.0
Thailand	1,009	1,021	985	-36	-3.5	11.8	69.1
Vietnam	334	279	227	-52	-18.6	4.4	34.3
Africa							
Congo (Kinshasa)	68	138	198	60	43.5	38.9	55.0
Ethiopia	65	66	72	6	9.1	19.4	47.1
Ghana	100	113	97	-16	-14.2	6.2	28.6
Ivory Coast	69	78	80	2	2.6	2.5	22.8
Kenya	76	100	170	70	70.0	2.4	50.7
Libyan Arab Republic	385	539	918	379	70.3	9.8	146.9
Morocco	76	85	114	29	34.1	18.4	18.2
Nigeria	122	126	131	5	4.0	23.7	28.4
Senegal	37	16	6	-10	-62.5	33.3	3.1
Sudan	55	48	36	-12	-25.0	---	15.3
Tanzania	62	78	80	2	2.6	5.0	41.0
Togo	22	26	30	4	15.4	3.3	58.8
Tunisia	40	35	36	1	2.9	11.1	12.2

--- Indicates figure is zero or less than half of the last digit shown.
n.a. = Not available
1/ Includes reserve position with the International Monetary Fund.
2/ Gold tranche position and lendings to the Fund (reserve position in the Fund) included with gold.
3/ Ratio of December 31, 1969, reserves to fourth quarter 1969 imports (at annual rates) except where denoted by letters which indicate imports for the following periods: (a) third quarter 1969, (b) second quarter 1969, (c) first quarter 1969 (d) fourth quarter 1968.
4/ Includes some countries not separately shown.
5/ Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Source: International Monetary Fund, International Financial Statistics, April 1970.

Table 2.--International trade of the free world, calendar years 1968 and 1969

Country and area	Exports (f.o.b.)		Exports Change		Imports (c.i.f.)		Imports Change		Trade balance	
	1968	1969	1967 to 1968	1968 to 1969	1968	1969	1967 to 1968	1968 to 1969	1968	1969
	Mil. U.S. dol.		Percent		Mil. U.S. dol.		Percent		Mil. U.S. dol.	
WORLD TOTAL	212,900	243,000	11.7	14.1	224,800	254,300	11.4	13.1	-11,900	-11,300
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES	169,600	195,690	12.4	15.4	179,860	206,660	12.3	14.9	-10,260	-10,970
United States	34,636	37,988	9.5	9.7	35,549	38,539	23.7	8.4	-913	-551
Belgium-Luxembourg	8,164	10,032	16.1	22.9	8,333	9,964	16.1	19.6	-169	68
France	12,682	14,992	11.4	18.2	13,939	17,373	12.6	24.6	-1,257	-2,381
Germany, Federal Rep. of	24,853	29,070	14.3	17.0	20,235	24,953	16.5	23.3	4,618	4,117
Italy	10,183	11,864	17.2	16.5	10,253	12,460	4.3	21.5	-70	-596
Netherlands	8,341	9,963	14.5	19.4	9,291	10,989	11.5	18.3	-950	-1,026
European Economic Community	64,223	75,921	14.4	18.2	62,051	75,739	12.7	22.1	2,172	182
Austria	1,989	2,412	10.0	21.3	2,496	2,825	8.1	13.2	-507	-413
Denmark	2,639	3,018	3.9	14.4	3,236	3,812	2.6	17.8	-597	-794
Norway	1,938	2,203	11.5	13.7	2,706	2,943	-1.5	8.8	-768	-740
Portugal	732	823	4.4	12.4	1,039	1,232	-1.9	18.6	-307	-409
Sweden	4,937	5,688	9.0	15.2	5,182	5,876	10.2	13.4	-245	-188
Switzerland	3,968	4,627	13.4	16.6	4,513	5,285	9.3	17.1	-545	-658
United Kingdom	15,346	17,500	6.7	14.0	18,959	20,000	7.1	5.5	-3,613	-2,500
European Free Trade Association	31,549	36,271	8.1	15.0	38,131	41,973	6.5	10.1	-6,582	-5,702
Australia	3,526	4,222	1.4	19.7	4,382	4,556	12.0	4.0	-856	-334
Canada	13,158	14,390	19.3	9.4	12,482	14,345	13.8	14.9	676	45
Finland	1,637	1,987	6.7	21.4	1,598	2,023	-5.9	26.6	39	-36
Greece	468	508	-5.5	8.5	1,393	1,564	17.5	12.3	-925	-1,056
Iceland	82	108	-15.5	31.7	138	123	-14.8	-10.9	-56	-15
Ireland	798	885	1.0	10.9	1,175	1,411	8.1	20.1	-377	-526
Japan	12,973	16,043	24.2	23.7	12,988	15,026	11.4	15.7	-15	1,017
New Zealand	1,010	1,211	1.7	19.9	895	1,003	-6.3	12.1	115	208
South Africa	2,158	2,193	10.4	1.6	2,891	3,291	-1.9	13.8	-733	-1,098
Spain	1,590	1,900	14.9	19.5	3,498	4,200	1.2	20.1	-1,908	-2,300
Turkey	496	540	-5.2	8.9	764	750	11.5	-1.8	-268	-210
Yugoslavia	1,264	1,471	1.0	16.4	1,797	1,960	5.3	9.1	-533	-489
Sum of-- Australia to Yugoslavia	39,160	45,458	15.3	16.1	44,001	50,252	8.8	14.2	-4,841	-4,794
II. LESS DEVELOPED COUNTRIES	43,300	47,300	9.3	9.2	45,000	47,600	7.9	5.8	-1,700	-300

Source: International Monetary Fund, International Financial Statistics, April 1970.

Area and Country Data

At the end of 1969, the free world's developed nations accounted for $61.7 billion (80 percent) of total international reserves. Less developed countries held the remainder of slightly under $15.2 billion. A $1.3 billion improvement in the reserves of less developed countries between December 1968 and December 1969 was almost entirely offset by a $1.1 billion drop in the reserves of developed nations. Of the less developed countries, only Israel, Argentina, Saudi Arabia, and Vietnam suffered reserve losses in 1969 that were greater than $40 million. In percentage terms, only two of the less developed countries had losses greater than 30 percent of their total 1968 reserves. Israel's reserves fell by nearly 38 percent between the end of 1968 and the close of 1969 and Senegal's dropped by over 62 percent. Germany's 28.3 percent decrease in reserves during this same period was the largest loss recorded by a developed country.

The trade deficit of the developed countries worsened in 1969 to almost $11 billion from $10.3 billion the year before. In contrast, the deficit for the less developed countries continued to decline, going from $1.7 billion to $300 million. Less developed countries supplied about 19 percent of free world exports and took roughly an equal share of its imports in 1969.

Industrial and Other Developed Countries

The European Free Trade Association (EFTA) together with the European Economic Community (EEC) held approximately 42 percent of the world's international reserves on December 31, 1969. (EFTA held roughly 15 percent, or $11.4 billion, and the EEC 27 percent, or $20.9 billion.) This is a slightly lower proportion than was held by the two groups in 1968, when EFTA accounted for 15 percent but the EEC held 31 percent. In 1969, EFTA supplied about $36.3 billion worth of the world's exports and received almost $42 billion in imports. In comparison, EEC exports totaled $75.9 billion, slightly above the Community's import figure of $75.7 billion.

Economic growth rates for countries belonging to the Organization for Economic Cooperation and Development (OECD) averaged 5 percent in 1969, down from 5.7 percent in 1968 (table 4). Growth in 1970 is forecast at only 3.5 percent. The EEC countries had an average growth rate of 7.3 percent in 1969, compared with 5.5 percent the previous year. This rate is expected to drop to about 5 percent in 1970. In 1969, Japan registered the highest growth in real output of all OECD countries, a rate of 12.5 percent. This was down 1.7 percentage points from 1968 growth, but higher than the approximately 11 percent forecast for 1970. The United Kingdom achieved a growth rate of 2 percent in 1969, the lowest of the OECD group and 1.6 percentage points below the year-earlier rate. A growth rate between 3 and 3½ percent is expected for the United Kingdom in 1970.

The United States economy in real terms grew at the rate of 2.75 percent in 1969, substantially under the 4.9 percent of 1968. In fact, by year-end 1969 real growth of GNP had virtually ended. Even with this slowdown the upward pressure on wages and prices remained strong. Price increases during

Table 3.--Major changes in monetary gold holdings 1/

Country or institution	Changes, Dec. 31, 1968 to Dec. 31, 1969
	Millions U.S. dollars
Germany	-460
France	-330
South Africa	-128
United States	967
Developed countries	153
Country holdings, total	195
World total, including institutions	110

1/ Excluding IMF gold tranche position and lendings to the IMF.

Source: International Monetary Fund, International Financial Statistics, April 1970.

Table 4.--Growth in real output, OECD countries, 1968-70

Country or area	1968	1969	1970 forecast
	Percent		
Total OECD	5.7	5.00	3.50
Major 7 countries	5.8	4.75	3.25
United States (GNP)	4.9	2.75	1.50
Canada (GNP)	4.7	5.00	4.00
Japan (GNP)	14.2	12.50	11.25
France	4.2	8.25	4.00
Germany (GNP)	7.0	7.75	4.50
Italy	5.4	6.00	7.75
United Kingdom	3.6	2.00	3.00
Other OECD North 1/	4.1	5.25	4.00
Austria	4.1	5.50	4.00
Belgium	4.0	6.00	4.75
Denmark	3.6	7.00	3.75
Finland	2.0	8.00	6.00
Ireland	4.9	4.00	4.50
Netherlands	6.2	5.00	3.50
Norway	3.8	4.50	4.75
Sweden	3.3	4.50	3.75
Switzerland	4.0	4.50	4.00
Other OECD South 2/	5.1	7.50	6.50
OECD Europe	5.0	6.00	4.50

1/ Including Luxembourg and Iceland.
2/ Spain, Portugal, Greece and Turkey

Note: Growth in GDP was used unless otherwise noted.

Source: OECD, Economic Outlook, December 1969.

the year completely offset wage increases for many individuals. The consumer price index rose by over 6 percent in 1969 while wholesale prices rose by 4.8 percent. Total wages and salaries climbed by 9.6 percent last year. By the last half of the year, consumer demand for durable goods slowed and the savings rate rose sharply. In addition, industrial output and corporate profits edged downward during the last half of the year, reflecting the country's restrictive monetary policy as well as the strikes which beset certain industrial sectors of the economy during the year. Nevertheless, unemployment at 3.4 percent was still relatively low in December 1969. However, by April 1970, the unemployment rate had climbed to 4.8 percent. The money supply, which increased by 7 percent in 1968, climbed 4.4 percent in the first half of 1969 and only 0.7 percent during the rest of the year. For 1970, economic expansion is forecast at roughly 1½ percent as the government's anti-inflationary measures continue to slow the overall business pace.

International reserves of the United States totaled $17 billion on December 31, 1969, up from $15.7 billion a year earlier. U.S. exports climbed $3.4 billion to $38 billion in 1969, and imports at $38.5 billion were up $3 billion. As the result of the larger growth in exports, the country's trade deficit dropped to $551 million from $913 million in 1968.

In the final quarter of 1969, the U.S. balance of payments on a liquidity basis showed a surplus of about $1.1 billion. This contrasted to an average deficit of $2.7 billion for the preceding three quarters. The fourth quarter surplus reflected an influx of money temporarily repatriated by U.S. corporations to comply with the U.S. foreign direct investment control program. This program, like the voluntary foreign credit restraint program and the interest equalization tax, is designed to strengthen the U.S. balance-of-payments position. However, these repatriated funds could flow out of the United States in response to economic and policy changes; therefore, they are not regarded as a real improvement in the overall balance.

For the full year, the balance-of-payments deficit on the liquidity basis was $7 billion, a $7.2 billion deterioration from 1968. In contrast, when calculated on the official settlements basis, the balance showed a $2.7 billion surplus, up $1.1 billion from the previous year's surplus. The large liquidity deficit was of little real significance because of atypical developments. It occurred partly because of a large reversal of special financial transactions as well as the combined effects of tight U.S. monetary policy and high interest rates in international capital markets. In response to the high interest rates, money flowed out of foreign central banks into private hands, expanding the liquidity obligations of the United States. However, the 1969 liquidity deficit was largely attributed to the deterioration in private capital flows relative to the U.S. capital market. Measured on the official reserve transactions basis, the larger 1969 surplus mainly resulted from decreased U.S. obligations to foreign central banks because of funds moving into private hands.

The United Kingdom held international reserves of more than $2.5 billion on December 31, 1969, up 4.3 percent from the 1968 level but somewhat less than the 1967 total of $2.7 billion. The country's trade deficit dropped to $2.5 billion in 1969 from $3.6 billion a year earlier. Exports at $17.5 billion increased 14 percent while imports climbed by 5.5 percent to $20 billion. The slowdown in import growth from 7.1 percent in 1968 was caused mainly by the

U.K.'s import deposit scheme. During 1969, this scheme required that half the value of the import be deposited with the government for 180 days prior to the actual date of importation. This deposit scheme was extended to cover 1970, but the deposit rate was reduced.

In the second half of 1969, the U.K. balance of payments had a current account surplus of over $1.3 billion. There was a surplus on the basic balance of slightly under $1.8 billion. 2/ For the year these surpluses were $864 million and $929 million, respectively. The basic surplus, plus large inflows of short-term funds after the October 1969 revaluation of the deutsche mark, enabled the United Kingdom to repay a sizable portion of its foreign debt. For example, short- and medium-term debt was reduced from roughly $8.1 billion in December 1968 to $6.4 billion the following December. In the first quarter of 1970, the debt declined by an additional $2.4 billion. A satisfactory surplus is forecast for the basic balance in 1970, although export growth may be hampered by a drop in world demand.

The United Kingdom may become a member of the EEC. It is impossible to predetermine the full economic and political consequences of this action but, certain results do seem apparent. For instance, as an EEC member the United Kingdom will probably experience higher food prices. Also, according to a white paper published by the United Kingdom in February 1970, changes in capital flows could add sizable costs to the country's balance of payments.

The country's economy grew at only 2 percent in 1969. Its growth rate is expected to accelerate to 3 or 3½ percent in 1970, stimulated by the government's various monetary and fiscal measures. Such measures include the expansion of domestic credit and some changes in the tax structure. It is hoped that these measures will not cause consumer demand to grow at a faster than expected rate, resulting in higher imports and a deterioration in the balance of payments. Domestic credit, which contracted by $480 million in 1969, will be allowed to expand by over $2 billion this year.

In 1969 the volume of investment in local industry was over 6 percent, encouraged by postdevaluation advantages and a boom in world trade. Investment was highest in the vehicle and metal industries.

According to preliminary reports, Japan's balance of payments for 1969 registered an overall surplus of just under $2.3 billion, compared with a $1.1 billion surplus the previous year. The current account surplus reached almost $2.2 billion, up from $1.0 billion. On a balance-of-payments basis (which records imports f.o.b.) the 1969 trade surplus was nearly $3.8 billion, roughly $1.2 billion above the 1968 surplus. On the other hand, the deficit on the invisibles and transfer accounts worsened in 1969 to $1.6 billion and $170 million, respectively, from $1.3 billion and $175 million the previous year.

The long-term capital account deficit improved to $170 million in 1969, mainly because of sizable inflows of foreign capital in the form of security investments. The deficit on this account was $239 million in 1968 and $812 million in 1967.

2/ The basic balance includes the net changes in the current account, transfer payments, and the long-term capital account.

Japan's exports exceeded $16 billion in 1969, up roughly 24 percent from 1968. Imports (c.i.f.) amounted to $15 million, a 16 percent gain from a year earlier. First quarter figures for 1970, expressed at an annual rate, indicate that exports could be up 21 percent while imports may increase 33 percent.

Japan's international reserves at almost $3.7 billion on December 31, 1969, were about 26 percent above the level of the past year. Net external assets totaled $3.3 billion at the close of 1969, up from $1.0 billion a year earlier. Short-term assets increased substantially in 1969 in response to the smaller differential between local and international interest rates and the large shift in import financing from foreign to yen funds. In mid-May 1970 the Bank of Japan raised the interest rates applied to preshipping and post-shipping finance. It did so because of international sentiment regarding its trade policies and in light of its improved balance-of-payments position.

Real output in Japan grew at no less than 12.5 percent in 1969. This was the fourth consecutive year that GNP rose by over 10 percent. Contributing to the expansion were increased exports, a 24.8 percent rise in private equipment investment, and a 24 percent jump in housing construction. In addition, private consumption grew by 15.2 percent, government investment on fixed capital climbed 15.4 percent, and current government expenditures on goods and services rose by 14.3 percent. The government expects the economic boom to continue into 1970/71. Consumer prices, which climbed by 5.7 percent in 1969/70, are projected to rise by close to 5 percent in 1970/71; wholesale prices, up 3.2 percent in 1969/70, should be nearly 2 percent higher. However, the government's price stabilization council has warned of the possibility of serious inflation in 1970 and is urging freer international commercial activities.

Between the end of 1967 and the close of 1969 France's reserves tumbled from nearly $7 billion to slightly over $3.8 billion. However, by the end of February 1970, the country's international reserves amounted to more than $4.1 billion, including a $165.5 million SDR allocation. The 1967 to 1969 decline reflects the monetary crisis that France faced before the August 1969 devaluation of the franc and the October revaluation of the deutsche mark. By the time the 11.1 percent franc devaluation became a reality, France had not only dipped heavily into its reserves in an attempt to support the par value of its currency, but had also borrowed roughly $1 billion for the same purpose. Thus, France's total debt by August 1969 exceeded $2 billion with $1.5 billion as short-term debt. After the devaluation of the franc and the subsequent revaluation of the deutsche mark, France's monetary crisis eased, enabling the country to repay all but $90 million of its short-term debt by April 1970.

The lack of confidence in the French economy, which prevailed before devaluation had discouraged the inflow of foreign capital. This, combined with the inability of French exports to compete effectively in world markets, caused a sharp deterioration in the nation's balance of payments in 1968. The balance improved slightly in 1969 after the French and German currency adjustments. However, the trade deficit, which approached $1.3 billion in 1968, totaled almost $2.4 billion in 1969. Exports increased 18 percent to just under $15 billion while imports, at nearly $17.4 billion, were up 25 percent.

The growth in national output, which was over 8 percent in 1969, is forecast at about 4 percent in 1970. An average growth rate of 6 percent is forecast over the 1971-75 period covered by the country's 6-year plan. The economy still faces many social and economic problems such as inflation, strikes, and tight credit due to the loss of investment capital. Wholesale prices rose 10 percent in 1969 and consumer prices advanced roughly 6.4 percent. Interest rates climbed by about 2 percentage points between 1968 and 1969. On the positive side, industrial production, excluding construction rose 27 percent; construction rose 4.7 percent.

Overall objectives of France's 6-year plan include improving the country's competitiveness in world markets, more spending on research, increasing domestic savings, improving the infrastructure, and revamping higher education. It hopes to limit price increases to an average of 3 percent a year and wage hikes to 3.8 percent. Regarding its balance-of-payments, France hopes to develop a current account surplus by 1975, but states that capital outflows will probably increase because of direct investments abroad and the granting of commercial credits. Thus, an overall balance-of-payment surplus by 1975 is unlikely.

Germany's gross national product, which grew at the rate of 7 percent in 1968 and by nearly 8 percent in 1969, may not surpass 4½ percent in 1970. The expected slowdown stems from present physical limits to further expansion of output, a cooler world economic climate, and the economic effects of the 9.3 percent deutsche mark revaluation in 1969.

Investment in equipment during 1969 was 28 percent higher than in 1968. Substantial wage increases, particularly in the closing months of the year, encouraged private consumption to rise by 10.4 percent or nearly double the 1968 growth rate. Consumer prices also continued to increase, and by the end of 1969 were 2.7 percent above those of a year earlier. Industrial production rose by 12.5 percent, slightly higher than the 11.8 percent growth of 1968. However, output is beginning to flatten. The rate of increase in productivity is slowing markedly as the last labor reserves are absorbed and the physical limits of industrial capacity are reached. As a result, growth in business income is expected to decline from 9 percent in 1969 to about 4-5 percent in 1970.

The domestic policy of both the government and Bundesbank is aimed at slowing the uptrend in prices and cooling off the economy without creating a recession. A continued tight money policy, reinforced by the contractionary effects of a sizable outflow of speculative funds following the parity change, sharply reduced bank liquidity. This pushed short-term interest rates to 20-year highs, virtually eliminating the interest rate differential with other money markets in Europe.

The government's tight money policy is not only intended to correct domestic problems but to aid the country's balance of payments which registered an overall deficit of $4.74 billion in 1969, compared with a $1.25 billion surplus in 1968. With the outflow of speculative funds, long-term capital exports were at record highs in 1969. International reserves registered a net decline of over $2.8 billion in 1969, totaling roughly $7.1 billion by year's

end. The country's trade surplus dropped from $4.6 billion in 1968 to $4.1 billion in 1969 as import growth outpaced that of exports. Exports increased by 17 percent to $29.1 billion while imports climbed 23 percent to almost $25 billion. The 1969 mark revaluation is expected to continue to affect Germany's foreign trade in the coming months as changes in export and import prices produce a further decline in foreign orders for German goods. The Bundesbank estimates that prices of German exports to most foreign buyers rose by an average of 14-15 percent in 1969; the cumulative effect of the franc devaluation and mark revaluation to French purchasers was a price increase of about 25 percent. Prices charged German consumers for imported goods reportedly did not decline noticeably after revaluation as expected. But the growth in the prices of domestic products has increased the competitiveness of foreign goods. Imports for 1970 are projected to grow by 13-14 percent.

Less Developed Countries

Brazil, India, and the Libyan Arab Republic jointly accounted for roughly 80 percent of the $1.3 billion net improvement in the international reserves of less developed countries during 1969. Brazil, whose reserves rose by $401 million (or 156 percent) had the largest increase. In percentage terms, the sharpest decline in reserves occurred in Senegal which lost more than 62 percent of its reserves (equal to $10 million) between year end 1968 and 1969. By value, Israel's reserve losses during this period were highest at $251 million and Argentina's second highest at $222 million. Economic conditions in several less developed countries (LDC's) are reviewed below. Generally, countries chosen for review have been leading participants in the U.S. food-for-peace program (P.L. 480). However, where there are outstanding changes in the external financial position of an LDC, that country is also reviewed.

Brazil's international reserves rose from $257 million on December 31, 1968, to $658 million by the close of the following year. The country's 1969 exports exceeded $2.3 billion, compared with roughly $1.9 billion the previous year. Exports of manufactures advanced by over 40 percent; raw cotton sales arose almost 49 percent, cocoa bean shipments increased more than 90 percent, and iron ore sales climbed over 42 percent. There was a sizable increase in nontraditional exports while coffee, the largest traditional export, accounted for only 35 percent of total exports in 1969 against 41 percent a year earlier.

The improved export situation reflects not only the success of the government's various production and export incentives, but also the effect of the country's policy of flexible exchange rates. In the past, Brazil's high rate of inflation kept the country's exporters out of economic balance with world markets. The recent establishment of the "crawling peg" system has permitted small but regular devaluations of Brazil's currency. This has helped local producers to be more competitive in international markets and restored some confidence in the currency by discouraging speculation

Indications are that imports for 1969 surpassed $2.2 billion, up more than $70 million from 1968. A rise in imports of machinery, equipment, and manufactures reflects the high level of internal economic activity. Brazil has liberalized its import policy and, at present, exercises tight controls over nonessential and luxury goods only.

In the first 6 months of 1969, the country's balance-of-payments surplus reached $190 million, compared with a $4 million deficit during the like 1968 period. This gain reflects the flexible exchange rate policy and the slowing of inflation, which encouraged export growth as well as capital inflows. In fact, the inflow of foreign capital in the first half of 1969 was 40 percent greater than in January-June 1968.

In general, the Brazilian economy was strong in 1969. The estimated 9 percent real growth rate for gross domestic product (which reached $32.3 billion in 1969) was one of the highest growth rates in the world. The rate of inflation for wholesale prices dropped from 24 percent in 1968 to 19 percent last year, but the 24 percent rise in the cost of living equaled that of 1968. This was due to a shortage of foodstuffs resulting from a drought and poor harvests the previous season. However, inflation will remain a major threat to the economy as long as the rapid pace of economic growth is heavily tied to export industries, wages increase at a fast pace, and there are large inflows of capital.

For the period 1969-73 the government has projected a real growth rate for the economy of 7 to 9 percent annually. So far as 1970 is concerned, the economy is reported to be expanding at a good pace. In addition, the balance of payments for 1970 is expected to be in surplus once again because the market and price prospects for Brazil's exports are extremely good this year. Exports for 1970 are projected at $2.5 billion with iron ore and manufactured goods realizing the largest gains. Manufactured goods should be responding fully this year to export incentives recently implemented by the government.

Argentina's national currency has experienced a significant loss of purchasing power in recent years. Among other things, this resulted in a large and cumbersome international exchange rate; therefore, on January 1, 1970, the government put a new peso into circulation which equals 100 old pesos or about 29 U.S. cents.

By the close of 1969, Argentina's international reserves totaled $538 million, down over 29 percent from the 1968 level. The decline reflects increased private capital outflows mainly in response to high international interest rates, internal instablility, and pressure against the peso in the exchange market. Continued inflation was also a factor in lowering reserves. The country's trade balance for 1969 was a positive $70 million. Imports climbed 32 percent to $1,540 million and exports rose 18 percent to $1,610 million. Despite a substantial growth in domestic beef consumption, beef exports in 1969 amounted to $331 million, 33 percent higher than 1968 shipments and 12 percent above those of 1967. The composition of Argentina's beef exports has changed during the past 2 years as processed products took a larger share of the market. For example, frozen and chilled special cuts represented 10 percent of total beef exports in 1967 and 30 percent in 1969. Cooked beef during that span rose from 6 to 11 percent. According to government projections, 1970 beef shipments will be up 10 percent from 1969.

Official figures for 1969 show that the country's gross domestic product grew by almost 6.9 percent, compared with 4.8 percent in 1968. The construction and commercial sectors advanced 13.7 and 10.1 percent, respectively.

Agriculture, including the livestock industry, grew by 5.9 percent and constituted 13 percent of the total GDP. Manufacturing was up 7.3 percent, due mainly to increased output of metals, chemicals, machinery, and vehicles. Wholesale prices in January 1970 were 8.8 percent above their January 1969 level.

The 1970-74 national development plan envisages a 31 percent growth rate for GDP (roughly 5.5 percent annually), a 40 percent rise in industrial production (about 7 percent annually), and a 19 percent improvement in agricultural production (3.5 percent annually). In recent years, total investment has averaged about 19 percent of GDP, but this is projected to 22 percent by 1974. In real terms, yearly advances in per capita income and wages are projected at 4.2 and 5 percent, respectively.

Senegal's international reserves dropped sharply from $37 million at the end of 1967 to $16 million at the end of 1968 and $6 million by December 31, 1969. The country's trade deficit was $30 million in 1968, but preliminary reports, indicate that it was much higher for 1969. Expressed at an annual rate, figures for the first half of 1969 show a trade deficit of $48 million. Much of the deterioration in the trade balance reflects both higher prices for imported manufactured articles and lower export prices for raw materials. For instance, falling world prices and the termination of preferential prices in France cut 1968 export returns from groundnuts; they still accounted for about 72 percent of Senegal's total 1968 exports. Also contributing to the trade deficit and drop in reserves is the country's need to import large amounts of grain, fruits, vegetables, and dairy products to satisfy local consumption. With the help of loans from sources such as the World Bank and its affiliates, the country is attempting to increase and diversify agricultural production and enlarge industrial activities in order to cut import needs and develop additional products for export.

Industrial production during the first quarter of 1969 is estimated to be 8.6 percent above the first quarter of 1968. Major improvements in this sector included increases of 51.6 percent for the canning industry; 34.8 percent for grains, flour, and banked goods; 17.8 percent for tobacco and match products; and 17.8 percent for peanut oil processing. Industries registering declines included mining (-8.8 percent), construction materials (-9.2 percent), and textiles (-7.4 percent).

Reportedly, Pakistan had contracted foreign loans totaling over $4.5 billion during the last decade. By 1970, its debt service obligations exceeded $200 million annually, and absorbed more than 19 percent of its foreign exchange earnings. In fact, in early 1970 repayments to some of the countries which had previously extended credit completly offset new aid being extended to Pakistan by such countries.

At the close of 1969, Pakistan's international reserves amounted to $325 million, up $73 million from the previous year. The substantial increase is, in large part, attributable to drawings from the IMF. The country's exports, which had risen sharply in recent years, fell to $676 million in 1969 from $720 million in 1968. Expressed at an annual rate, 9-month import figures indicate that 1969 imports were slightly larger than those of the earlier year.

Imports in 1968 were valued at $996 million, contributing to a trade deficit of $276 million. Pakistan's balance-of-payments deficit for the fiscal year ended July 1969 totaled over $100 million.

In a move to provide additional raw materials for local industry, the government liberalized its import policy in 1970. As an additional incentive to business, it decided to reconsider existing restrictions on private investment and to formulate new guidelines for business operations in general. Tax evasion and monopoly are two problems in this area which Pakistan is still trying to resolve.

The government is also highly concerned with the excessive concentration of wealth with a minority of the population. As a result, the fourth 5-year plan (1970-75) puts great emphasis on social justice and reduction of economic disparity. Specific targets of the plan include annual growth rates of at least 6.5 percent for gross national product, 4 percent for per capita income, and 8.5 percent for exports. The overall objective is to make the country more self-reliant and less dependent upon foreign assistance. The goals of the plan seem reasonable because growth rates of this magnitude were realized for GNP and per capita GNP in calendar year 1967, and exports climbed by almost 12 percent in calendar 1968.

India's international reserves of $926 million on December 31, 1969 were up almost 36 percent from a year earlier, mainly because the country's 1969 trade deficit of $211 million fell far below the $756 million deficit of 1968. Exports climbed 4.6 percent to $1,833 million and imports dropped 18.5 percent to $2,044 million. The economy is still heavily dependent upon exports of primary products and thus vulnerable to crop shortfalls and world market prices. The government decides which public or private agencies can engage in international trading. Government agencies are acquiring an increasing share of these activities as India attempts to coordinate its trade and thereby improve its export earnings and gain economic benefits from bulk buying of imports.

India's fiscal year ends on March 31. The country's balance of payments for the first quarter (April-June) of IFY 1969/70 showed a deficit of only $5.5 million, the lowest for any quarter in recent years. In the like 1968/69 period, the deficit was $233.9 million. Much of this improvement was effected by the lower trade deficit ($243.7 million in the first quarter of IFY 1968/69 and $13.3 million in the like period of IFY 1969/70).

By the end of IFY 1968/69 India's public debt outstanding amounted to almost $17 billion, including roughly $8 billion of external debt. Even though India's past and present requirements for foreign assistance have been high, the country programs to encourage foreign investment and economic assistance programs continue to grow. Through August 1969, India provided a total of $32.2 million in loans and $132.0 million in grants. All loans are made in rupees and are tied to purchases of Indian goods. India also has a small technical assistance program.

Reports for IFY 1969/70 indicate that economic conditions within the country were generally favorable and that the economy's overall growth rate reached 5 to 5½ percent; the growth rate for IFY 1968/69 was 1.8 percent.

Food grain production is estimated to have increased substantially above that of IFY 1968/69 as did the production of such commercial crops as raw cotton, oilseeds, and jute. Sugar output also rose.

In calendar 1969, industrial production was reported up 7.5 percent, compared with 6.4 percent in 1968; effects of the recession of 1966 and 1967 appear past. However, constraints on industrial capacity, plus raw material shortages in various sectors, are severe and have necessitated emergency imports of certain products. Larger and more balanced investments, proper maintenance, technical improvements, and better labor relations are necessary to improve the general performance of industry.

Wholesale prices during January 1970 were 6.8 percent higher than in January 1969, calling for renewed efforts to control inflation.

Israel's international reserves stood at $412 million at the close of 1969, down 38 percent from the 1968 level. The outflow of reserves was caused by heavy debt payments and the growing trade deficit. The latter reached $441 million in 1968 and $600 million in 1969. Export values increased by $80 million in 1969 to a total of $720 million; imports at $1,320 million were up $239 million.

In 1969, exports of industrial products rose by 15 percent, agricultural products by 6 percent, and diamonds by 11 percent. Imports of consumer goods grew by 59 percent, with luxury items showing the largest growth rates. The 5-year preferential trade agreement which Israel concluded with the EEC in February 1970 provides Israel with a 40 percent tariff cut on various fruit exports and, over a 3-year period, will reduce tariffs on a wide range of industrial goods by 45 percent. The agreement also grants Israel an import quota of 300 tons for its cotton textiles. In turn, Israel will grant preferences to the EEC, such as exempting EEC countries from its import deposit scheme and granting them various tariff preferences.

By 1969, Israel's public debt amounted to roughly $3.4 billion, about half of which was external. Borrowing abroad by industrial concerns for periods of less than 8 years had been restricted by the government. But, it recently began encouraging short- and medium-term borrowing to give immediate strength to its external payments position.

Israel's economy boomed in 1969, feeling the effects of strong consumer and investment demand plus the high level of government spending. Prices increased by less than 2.5 percent as both employment and productivity continued to rise. Economic expansion is projected at 9 percent for 1970, down slightly from the 12 percent growth rate of 1969. A significant level of imports will again be necessary in 1970 to satisfy internal demand. Therefore, the balance of payments deficit will continue at a substantial level, requiring additional external borrowing and a further utilization of reserves. The balance of payments deficit was $228 million for the first 9 months of 1969.

The Libyan Arab Republic added $379 million (70 percent) to its international reserves between year-end 1968 and 1969. This increase is almost entirely the result of growing petroleum production and sales. For example, in 1968 Libya was the world's sixth largest petroleum producer with an average output of

2.6 million barrels a day. By the end of 1969 daily outflow had risen to 3.2 million barrels, and Libya was close to being the world's third largest producer. As Western Europe's largest single supplier, it provided 24 percent of that area's total oil imports in 1968. Libyan crude is popular because of its low sulphur content and lightness. The country also exports liquified natural gas.

In September 1969, the ruling monarchy was replaced by a military regime. In October, the four largest foreign banks operating in Libya were ordered to comply with a 1963 law, requiring that at least 51 percent of their capital be supplied by Libyans and the majority of their board of directors be Libyan nationals. Most other banks had already complied.

The country's second 5-year plan (1969/70-1973/74) provides for development outlays of over $3.2 billion. All development projects are now under direct government control. The foremost objective of the plan is to diversify the economy by encouraging both agriculture and industry. Of the total expenditures allocated over the life of the plan, agriculture will receive 13 percent and industry 8 percent. The remainder of the allocation will be directed to infrastructure development. The largest single plan allocation amounts to 15 percent for public works. Libya has also agreed with Sudan and Egypt to exchange financial and technical resources, especially in the field of agriculture.

U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS

by O. Halbert Goolsby

Changes in the Fourth Quarter of 1969

Agricultural exports in the last quarter of 1969 totaled $1,900 million, up 34 percent from the third quarter and the highest quarterly figure for the last 2 years (table 5). Over $400 million of the increase resulted from an increase in agricultural commodities exported on a commercial basis. Less than $80 million of the increase resulted from noncommercial exports (see table 6). In contrast, nonagricultural exports increased by only 10 percent to $8,393 million. Nearly all of this increase was in commercial exports.

Despite a 9 percent rise in the level of agricultural imports, the trade balance for agricultural commodities increased significantly from a surplus of $175 million to $538 million. Nonagricultural imports increased by 3.9 percent to a level of $8,218 million slightly below the corresponding export total. As a result, the nonagricultural trade balance improved from a deficit of $361 million to a surplus of $75 million. Thus, it was mostly agriculture that contributed to the U.S. trade balance of $613 million for all types of trade.

Considering commercial trade only, the United States recorded a deficit of $131 million--a $279 million surplus for agricultural commodities against $410 million deficit for nonagricultural products. Aside from agriculture's positive contribution to commercial trade, the U.S. position was improved by

Table 5.--U.S. merchandise trade, balance-of-payments basis, by quarters, 1968-69

Period and commodity group	Exports (f.o.b.) Total	Exports (f.o.b.) Noncommercial 1/	Exports (f.o.b.) Commercial	Imports (f.o.b.)	Trade balance Total	Trade balance Commercial
	Million U.S. dollars					
Total:						
1968 I	7,942	947	6,995	7,679	263	-684
II	8,643	897	7,746	8,199	444	-453
III	8,293	753	7,540	8,459	-166	-919
IV	8,720	734	7,986	8,635	85	-649
1969 I	7,445	627	6,818	7,335	110	-517
II	9,885	1,081	8,804	9,732	153	-928
III	8,964	650	8,314	9,150	-186	-836
IV	10,193	744	9,449	9,580	613	-131
Agricultural:						
1968 I	1,645	405	1,240	1,187	458	53
II	1,481	408	1,073	1,261	220	-188
III	1,426	183	1,243	1,341	85	-98
IV	1,669	244	1,425	1,235	434	190
1969 I	952	188	764	999	-47	-235
II	1,690	502	1,188	1,356	334	-168
III	1,416	180	1,236	1,241	175	-5
IV	1,900	259	1,641	1,362	538	279
Nonagricultural:						
1968 I	6,297	542	5,755	6,492	-195	-737
II	7,162	489	6,673	6,938	224	-265
III	6,867	570	6,297	7,118	-251	-821
IV	7,051	490	6,561	7,400	-349	-839
1969 I	6,493	439	6,054	6,336	157	-282
II	8,195	579	7,616	8,376	-181	-760
III	7,548	470	7,078	7,909	-361	-831
IV	8,293	485	7,808	8,218	75	-410

1/ Total noncommercial exports are equal to the amount of U.S. merchandise financed by the U.S. Government with international grants and credits and which involve no direct dollar outflow from the United States. Noncommercial agricultural exports are from table 6 and noncommercial nonagricultural exports are the residual.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Table 6.--Noncommercial U.S. agricultural exports, quarterly, 1968-69 1/

Item	1968 I	1968 II	1968 III	1968 IV	1969 I	1969 II	1969 III	1969 IV
	Million U.S. dollars							
Total noncommercial agricultural exports	405	408	183	244	188	502	180	259
By program:								
Title I, P.L. 480, sales for local currencies 2/ ..	261	170	61	66	36	180	59	58
Title I, P.L. 480, long-term dollar credit sales 2/ 3/	53	131	50	101	105	168	61	128
Title II, P.L. 480 grants .	67	82	54	62	39	111	48	60
Mutual Security (AID) disposals	3	2	3	3	3e	3e	3e	3e
Export-Import Bank, financed from own resources	21	23	15	12	5	40	9	10

1/ Those financed by the U.S. Government with international grants and credits.
2/ Excludes the value of commodities shipped under the program but paid for by initial payments in dollars. Therefore the series do not represent total value of shipments under the program, but only the value financed by the U.S. Government with international grants or credits.
3/ Includes convertible local currency credit sales.

e--Estimated

Source: P.L. 480 program (all titles): Office of Business Economics, U.S. Department of Commerce; Mutual Security and Export-Import Bank programs: Based on data from AID and the Export-Import Bank.

$104 million realized from noncommercial agricultural exports (table 7). This was a significant increase over the $82 million received in the third quarter and the largest quarterly contribution in the last 2 years. Most of the fourth quarter contribution ($63 million) resulted from the use of foreign currencies paid to the U.S. Government for agricultural commodities shipped under Title I, Public Law 480. If the U.S. Government had not received these currencies in this manner, it would have been required to purchase them with dollars under normal conditions. This would have worsened the U.S. balance of payments. U.S. position was further improved by $34 million of interest and principal repayments on dollar credit sales under P.L. 480. 1/

Changes in 1969

Agricultural exports in 1969 were valued at $5,958 million, down $263 million from 1968 and the lowest level since 1963 (tables 8 and 9). Agricultural imports, at $4,958 million, were down only 1.3 percent. As a result, the agricultural trade surplus was only $1,000 million--the smallest since 1960. Considering only commercial agricultural trade, the United States had a deficit of $129 million. This is much larger than the $43 million deficit for 1968 and the lowest balance since the $284 million deficit in 1962.

Nonagricultural exports in 1969 increased very substantially from the year before--up $3,152 million or 11.5 percent. Nearly all of this increase was due to larger commercial sales. Imports of these products increased 10.3 percent and reached a level of $30,839 million. The resulting trade deficit for these products was $310 million, significantly below the corresponding deficit a year earlier. However, commercial trade deficit for these products was $2,283 million, down 14.2 percent.

The commercial deficit for all trade totaled $2,412 million. This represented an improvement from the 1968 position but a deterioration from any other year for the decade. 2/ Partially offsetting the recent deficit was $360 million realized from noncommercial agricultural exports (table 10). When this contribution is applied against the agricultural deficit in commercial trade, agriculture's net contribution to the balance of payment becomes a positive $231 million.

Changes during the 1960's

Even though agricultural exports reached a peak in 1966 and declined the following 3 years, the trend for these exports the last decade was upward at $88 million per year. This is roughly a 1.5 percent annual increase. On a trend basis, commercial exports of agricultural commodities rose by $103

1/ The $104 million contribution probably resulted from merchandise largely shipped earlier and is therefore on a "cash" rather than "accrual" basis. It is impracticable, if not entirely impossible, to adjust that figure to an accrual basis.

2/ Figures on trade in this section are on a "balance of payments" basis. They therefore differ from those included in the discussion on U.S. trade on page 9 which are on the "Census" basis.

Table 7.--Agriculture's contribution to the U.S. balance of payments, by quarters, 1968-69

Item	1968 I	1968 II	1968 III	1968 IV	1969 I	1969 II	1969 III	1969 IV
	Million U.S. dollars							
Commercial agricultural exports	1,240	1,073	1,243	1,425	764	1,188	1,234	1,641
Plus: Realized dollar returns and savings on noncommercial agricultural exports	82	77	69	86	81	93	82	104
Title I, P.L. 480, foreign currencies used by U.S. agencies	39	49	48	49	42	51	58	63
Title I, P.L. 480, principal and interest repayments on dollar credit sales	11	10	6	16	14	15	7	34
Title I, P.L. 480, principal and interest repayments in dollars on foreign currency disbursed loans	4	4	4	6	3	3	3	3
Mutual Security (AID) foreign currencies used by U.S. agencies	---	---	---	---	---	---	---	---
Export-Import Bank principal and interest dollar repayments	28	14	11	15	22	24	14	4
Total agricultural dollar earnings, actual plus realized dollar returns on noncommercial exports	1,322	1,150	1,312	1,511	845	1,281	1,316	1,745
Less: Agricultural imports	1,187	1,261	1,341	1,235	999	1,356	1,241	1,362
Net contribution to the balance of payments attributable to agricultural merchandise trade	135	-111	-29	276	-154	-75	75	383

---zero or less than $500,000.

Source: Based on data from Commodity Credit Corporation, Export-Import Bank, and the Office of Business Economics, U.S. Department of Commerce.

Table 8.--U.S. merchandise trade, balance-of-payments basis, 1960-69

Period and commodity group	Exports (f.o.b.)			Imports (f.o.b.)	Trade balance	
	Total	Noncommercial 1/	Commercial		Total	Commercial
	Million U.S. dollars					
Total:						
1960	19,650	2,046	17,604	14,744	4,906	2,860
1961	20,107	2,396	17,711	14,519	5,588	3,192
1962	20,779	2,503	18,276	16,218	4,561	2,058
1963	22,252	2,882	19,370	17,011	5,241	2,359
1964	25,478	3,032	22,446	18,647	6,831	3,799
1965	26,447	2,952	23,495	21,496	4,951	1,999
1966	29,389	3,152	26,237	25,463	3,926	774
1967	30,681	3,523	27,158	26,821	3,860	337
1968	33,598	3,331	30,267	32,972	626	-2,705
1969	36,487	3,102	33,385	35,797	690	-2,412
Agricultural:						
1960	4,835	1,377	3,458	3,894	941	-436
1961	5,023	1,454	3,569	3,756	1,267	-187
1962	5,037	1,423	3,614	3,898	1,139	-284
1963	5,584	1,538	4,046	4,044	1,540	2
1964	6,350	1,630	4,720	4,090	2,260	630
1965	6,229	1,360	4,869	4,086	2,143	783
1966	6,879	1,403	5,476	4,491	2,388	985
1967	6,381	1,324	5,057	4,452	1,929	605
1968	6,221	1,240	4,981	5,024	1,197	-43
1969	5,958	1,129	4,829	4,958	1,000	-129
Nonagricultural:						
1960	14,815	669	14,146	10,850	3,965	3,296
1961	15,084	942	14,142	10,763	4,321	3,379
1962	15,742	1,080	14,662	12,320	3,422	2,342
1963	16,668	1,344	15,324	12,967	3,701	2,357
1964	19,128	1,402	17,726	14,557	4,571	3,169
1965	20,218	1,592	18,626	17,410	2,808	1,216
1966	22,510	1,749	20,761	20,972	1,538	-211
1967	24,300	2,199	22,101	22,369	1,931	-268
1968	27,377	2,091	25,286	27,948	-571	-2,662
1969	30,529	1,973	28,556	30,839	-310	-2,283

1/ Total noncommercial exports are equal to the amount of U.S. merchandise financed by the U.S. Government with international grants and credits and which involve no direct dollar outflow from the United States. Noncommercial agricultural exports are from table 9 and noncommercial nonagricultural exports are the residual.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Table 9.--Noncommercial U.S. agricultural exports, 1960-69 1/

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
	Million U.S. dollars									
Total noncommercial agricultural exports	1,377	1,454	1,423	1,538	1,630	1,360	1,403	1,324	1,240	1,129
By program:										
Title I, P.L. 480, sales for local currencies 2/	980	902	1,012	1,149	1,234	914	840	740	558	333
Title I, P.L. 480, long-term dollar-credit sales 2/ 3/	---	---	39	50	97	147	233	190	335	462
Title II, P.L. 480 grants	218	339	328	328	276	273	240	295	265	258
Mutual Security (AID) disposals	157	179	35	11	23	26	47	33	11	12
Export-Import Bank, financed from own resources	22	34	9	---	---	---	43	66	71	64

---Zero or less than $500,000.

1/ Those financed by the U.S. Government with international grants and credits.

2/ Excludes the value of commodities shipped under the program but paid for by initial payments in dollars. Therefore the series do not represent total value of shipments under the program, but only the value financied by the U.S. Government with international grants or credits.

3/ Includes convertible local currency credit sales.

Source: P.L. 480 program (all titles): Office of Business Economics, U.S. Department of Commerce; Mutual Security and Export-Import Bank programs: Based on data from AID and the Export-Import Bank.

Table 10.--Agriculture's contribution to the U.S. balance of payments, 1960-69

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
	Million U.S. dollars									
Commercial agricultural exports	3,458	3,569	3,614	4,046	4,720	4,869	5,476	5,057	4,981	4,829
Plus: Realized dollar returns and savings on noncommercial agricultural exports	171	201	288	198	240	225	184	347	314	360
Title I, P.L. 480, foreign currencies used by U.S. agencies	118	148	156	160	223	183	132	225	185	214
Title I, P.L. 480 principal and interest repayments on dollar credit sales	---	---	---	2	5	27	39	60	43	70
Title I, P.L. 480 principal and interest repayments in dollars on foreign currency disbursed loans	4	7	101	27	12	13	13	15	18	12
Mutual Security (AID) foreign currencies used by U.S. agencies	16	15	2	1	---	2	---	---	---	---
Export-Import Bank principal and interest dollar repayments	33	31	29	8	---	---	---	47	68	64
Total agricultural dollar earnings, actual plus realized dollar returns on noncommercial exports	3,629	3,770	3,902	4,244	4,960	5,094	5,660	5,404	5,295	5,189
Less: Agricultural imports	3,894	3,756	3,898	4,044	4,090	4,086	4,491	4,452	5,024	4,958
Net contribution to the balance of payments attributable to agricultural merchandise trade	-265	14	4	200	870	1,008	1,169	952	271	231

---Zero or less than $500,000.

Source: Based on data from Commodity Credit Corporation, Export-Import Bank, and the Office of Business Economics, U.S. Department of Commerce.

million annually while noncommercial exports declined by $15 million. The net result of these movements is that commercial exports increases their share of total exports. In the first 3 years of the last decade commercial exports averaged 71.4 percent of total exports. In the last 3 years they were a little over 80 percent.

Agricultural imports also trended upward--at an annual rate of $68 million. Unlike exports, they recorded no clear peak during the decade. In 1966 and 1968 significant increases occurred. These increases plus the declines in exports since 1966 have resulted in lower trade surpluses in each subsequent year for agricultural commodities. The agricultural trade balance (commercial plus noncommercial) peaked at $2,388 million in 1966 but declined to $1,000 million in 1969. Nevertheless the trend for this decade was upward at $19 million a year. The commercial trade balance also reached a peak in 1966 but by 1969 it was negative at $129 million. Still, its trend for the decade was upward at a farily strong annual pace--$34 million. That rate was $15 million higher than the trend on the total balance.

Nonagricultural exports for the decade increased trendwise by $875 million a year or roughly 4.2 percent. However, the rate of increase for these commodities was stronger for noncommercial exports (5.4 percent) than it was for commercial exports (4.1 percent). On trend value of commercial exports increased annually by $704 million, much higher than the upward trend of $81 million for products exported on a noncommercial basis. Commercial exports as a percentage of total exports of these products changed little. Nonagricultural imports trended strongly upward at $1,143 million or 6.3 percent annually. This rate is clearly higher than that for exports and therefore the trade deficit necessarily must be downward. Considering only commercial trade, the trade balance had a downtrend of $349 million, reflecting a weaker trade position for the United States over the decade. The total trade balance did not decline that much, but the downtrend was fairly strong--$268 million a year.

The trade deficit for all commodities exported on a commercial basis trended downward at $315 a year. This movement would have been stronger except for the uptrend in commercial agricultural trade. For the first 5 years of the decade the commercial trade surplus for all commodities surpassed $2,000 million each year. In the last 2 years the commercial trade balance maintained a deficit exceeding $2,400 million.

When noncommercial exports were also included in the trade balance calculation, the United States had a surplus in every year. Nevertheless, the trend was downward at a rate of roughly 6 percent or $248 million a year. This was the net result of a small upward trend on the balance for agricultural commodities and a downward trend for nonagricultural products. As noted, this downtrend on the trade balance for nonagricultural commodities resulted from a stronger trend upward for imports than for exports. It was not due to a decline in exports.

The small decline for agricultural commodities exported on a noncommercial basis was largely the result of the following: (1) Little change in trend over the decade in exports of farm commodities under Title II, P.L. 480, (2) a declining trend of $33 million per year in exports of commodities sold for local

currencies under P.L. 480 and, (3) an annual upward export trend of $28 million since 1962 for commodities sold for dollars under long-term credit arrangements.

Aside from agriculture's contribution to the balance of payments through commercial trade, there was a contribution from the noncommercial exports. During the 1960's this contribution ranged from $171 million in 1960 to $360 million in 1969. The trend for this period was upward at $8 million or 3.2 percent a year. In 5 of the last 10 years the agricultural trade balance, on a commercial basis, was in deficit. In 4 of these years however, the contribution to the balance of payments from noncommercial exports of farm commodities was more than enough to offset the commercial deficit. Only in 1960 was agriculture's net contribution negative.

The peak year in agriculture's net contribution was 1966 when it totaled $1,169 million. Its contribution declined to $231 million in 1969 but for the decade the trend was upward at $42 million at year. For the decade as a whole the total net contribution was $4,454 million.

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, $300

POSTAGE & FEES PAID
United States Department of Agriculture

☆ U. S. GOVERNMENT PRINTING OFFICE : 1970 394-234 (ERS-229)